

Message Text

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PAGE 01 LONDON 12036 171137Z

45

ACTION EB-11

INFO OCT-01 EUR-25 EA-11 ISO-00 SPC-03 AID-20 NSC-10

RSC-01 CIEP-02 SS-20 STR-08 OMB-01 CEA-02 FRB-02

NEA-10 PRS-01 CIAE-00 INR-10 NSAE-00 DRC-01 L-03 /142 W

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R 171124Z OCT 73

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 4859

INFO AMEMBASSY BONN

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY TOKYO

USMISSION OECD PARIS

USMISSION EC BRUSSELS

TREASURY DEPT WASHDC

C O N F I D E N T I A L LONDON 12036

DEPARTMENT ALSO PASS FRB

E.O. 11652: XGDS-1

TAGS: EFIN, UK

SUBJECT: ARAB PURCHASES OF STERLING

1. SENIOR OFFICIAL AT BANK OF ENGLAND (BOE) SAYS THAT BOE ASSUMES THAT STERLING PURCHASES BY ARAB STATES ARE RESPONSIBLE FOR PUSHING UP THE RATE THIS WEEK. THIS MORNING STERLING OPENED AT \$2.4480 IN INTERBANK DEALING. (IT CLOSED LAST FRIDAY AT \$2.4265.) SOURCE SAID HARD EVIDENCE, INCLUDING INFORMATION ON AMOUNTS INVOLVED, IS LACKING. SOME ARAB BANKS ARE BUYING STERLING, BUT NOT ON THE SCALE REQUIRED TO HAVE BROUGHT UP THE RATE TO ITS CURRENT LEVEL. BOE BELIEVES ARAB ORDERS ALSO COMING THROUGH THE CONTINENT AS WELL AS DIRECTLY THROUGH U.K. COMMERCIAL BANKS. TIGHT MONEY IN U.K. MAY ALSO HAVE HAD SOME MARGINAL EFFECT.

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PAGE 02 LONDON 12036 171137Z

2. BANK OF ENGLAND IS UNABLE GIVE ANY QUANTITATIVE ESTIMATE ON MAGNITUDE OF PURCHASES. THEY HAVE GONE

BEYOND THE MARGINAL STAGE, BUT THEY ARE NOT ASTRONOMICAL. SOURCE NOTED THAT KUWAIT IS ALREADY A MAJOR STERLING HOLDER; HE CONSIDERED THAT EVEN A MODEST CHANGE IN THE ATTITUDE OF OTHER ARAB STATES, SHIFTING OUT OF DOLLARS INTO STERLING WOULD HAVE A NOTICEABLE EFFECT. BY FRIDAY, BOE HOPES TO HAVE BETTER IDEA WHETHER INFLOWS CONCERNED CAN BE CHARACTERIZED AS MODEST, SUBSTANTIAL, OR MASSIVE. SOURCE SAID THAT ANY INFLOW WHICH WOULD SUBSTANTIALLY DRIVE UP STERLING RATE WOULD BE AN EMBARRASSMENT AND NOT THE SORT OF INFLOW OR SUPPORT THAT THE U.K. DESIRES.

3. DEPARTMENT PLEASE PASS OTHER POSTS AS DESIRED.

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Message Attributes

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Disposition Date: 28 MAY 2004
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Disposition Reason:
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30 JUN 2005

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